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ZNR UUUUU ZZH
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INFO RUEATRS/DEPARTMENT OF TREASURY WASHDC
RUEKJCS/SECDEF WASHDC
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SUBJECT: PARIS CLUB - APRIL 2006 TOUR D'HORIZON

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SUMMARY

11. (SBU) At the April 5 Paris Club meeting, creditors accepted in principle Algeria's offer to prepay at face value its previously rescheduled Paris Club debt. The US is the third largest creditor with \$1.2 billion in claims, just over half of which are pre-payable without penalty. The US stressed the importance of international support for Liberia's efforts to normalize relations with the international financial institutions (IFIs) and pledged to mobilize necessary resources for debt relief. Creditors

provided financing assurances for Moldova's new Poverty Reduction and Growth Facility (PRGF) with the IMF. Moldova and Grenada are tentatively scheduled to come to the Club next month to negotiate the terms of non-concessional debt reschedulings. The final phase of Nigeria's October 2005 Paris Club agreement will enter into force later this month provided that the first review of Nigeria's Policy Support Instrument (PSI) is approved by the IMF's executive board, as anticipated. Other countries on the agenda included Afghanistan, Angola, Argentina, Brazil, Cameroon, Guinea, Iraq, and Seychelles. End Summary.

AFGHANISTAN

12. (SBU) The IMF has reached an agreement ad referendum on a PRGF covering the period April 2006 to March 2009. The program will be brought to the executive board at the end of May, if Paris Club creditors provide assurances of debt relief at the May 10-12 meeting, which in turn depends on Afghanistan reaching an agreement with Russia on the amount of its bilateral debt. The US reported that it met on March 22 with Afghan Deputy Finance Minister Shahrani, who promised to reach an agreement with the Russians by the May Paris Club meeting.

ALGERIA

13. (SBU) Creditors accepted in principle Algeria's offer to prepay at face value its previously rescheduled Paris Club debt, which totals \$7.7 billion. Most creditors announced their intention to participate in the transaction; a few have yet to decide. The USDEL said only debt owed to Exim (around \$665 million) could be prepaid without penalty. Some creditors (Belgium, Finland, France, Italy, UK) reported small arrears and/or unreconciled debt but said they did not intend to block the prepayment. The authorities hope to complete the transaction by end-May. Italy is the largest creditor (\$1.7 billion), followed by France (\$1.6 billion) and the United States (\$1.2 billion).

14. (SBU) Separately, the United States, supported by Canada and France, characterized as troubling Russia's recently concluded agreement with Algeria linking debt cancellation with trade. Under the terms of the agreement, Russia will freeze Algeria's debt as of February 1, 2006 - a stock of \$4.7 billion - and will cancel the debt once Algeria has granted commercial contracts to Russia equal to this amount. The USDEL pointed out that such a linkage amounts to managed trade and would not be appropriate in the context of a Paris Club debt treatment. Russia responded that most of the commercial contracts had already been signed.

ANGOLA

15. (U) Paris Club Chairman Musca's meeting with the Angolan finance minister has been postponed until late April. As a result, it is still unclear at this stage how Angola will react to the Club's proposal that Angola resume payments in excess of scheduled debt service so as to begin paying down arrears. In preliminary discussions with the Secretariat, the authorities expressed a willingness to resume payments to the Paris Club as part of a coordinated solution aimed at restoring commercial ties. The IMF reported that Angola is finalizing a \$10 billion credit line with China's Exim bank, in addition to a \$2 billion credit line that already exists.

ARGENTINA

16. (SBU) At the request of Germany, the Secretariat will seek a meeting with the Argentine authorities on the margins of the IMF-World Bank spring meetings to remind them of Argentina's arrears to the Paris Club and the process for normalizing relations. The Secretariat, however, expressed doubt that such a meeting would produce a positive result, noting that the authorities are already well aware of the current situation.

BRAZIL

¶17. (U) At the January 2006 meeting, creditors accepted Brazil's offer to prepay previously rescheduled debt. Debts to the US, Austria, Belgium, Italy, Spain, Switzerland, and the UK have now all been fully prepaid. Japan's debt has been partially prepaid and the balance is expected to be prepaid later this month. Canada, France, Germany, and the Netherlands reported that arrears still haven't been cleared, although discussions with Brazil are ongoing. The Secretariat will contact the authorities by telephone and

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remind them of their commitment to clear these arrears by end-March 2006.

CAMEROON

¶18. (U) The IMF and World Bank expect completion point under the Heavily Indebted Poor Countries (HIPC) initiative to be reached by the end of April. In light of outstanding data reconciliation issues, the Secretariat will invite Cameroon to come to the Club in June, rather than May, to negotiate the terms of the debt treatment it will receive at completion point.

GRENADA

¶19. (SBU) Grenada is scheduled to come to the Club for negotiations next month. The UK noted that the authorities were likely to seek a concessional debt treatment (i.e., involving some debt reduction); therefore it was important to manage their expectations. The Secretariat asked the IMF to pass the message to the authorities that a concessional treatment was not in the offing. Both the UK and Belgium reported short-term credits that may need to be rescheduled, depending on Grenada's capacity to pay.

GUINEA

¶10. (U) Guinea's new PRGF could come to the IMF executive board in the first half of June. Given arrears to Paris Club creditors, the IMF will request assurances of debt relief, possibly at the next Paris Club meeting. HIPC completion point could be reached by the end of the year.

IRAQ

¶11. (SBU) Australia expects to conclude its bilateral with Iraq the week of April 10-14. Russia, on the other hand, reported no progress since last month's discussion. Although Russia and Iraq have agreed on the text of a bilateral, the data reconciliation process remains incomplete. Russia said it was waiting for a response from Ernst & Young, who are representing the Iraqis.

LIBERIA

¶12. (U) The IMF summarized the long and challenging road to debt relief under the HIPC program, and called on creditors to provide documentation of their claims to the authorities. At the suggestion of the US, the Secretariat agreed to launch a data call. The USDEL said it is committed to help mobilize necessary resources for debt relief and new financing from the IFIs.

MOLDOVA

¶13. (SBU) Paris Club creditors (US, Germany, Italy, Japan, Russia) provided assurances of debt relief for Moldova's three-year PRGF, which is expected to come to the executive board in early May. The IMF projects a financing gap of \$48 million in 2006, taking into account IMF disbursements and the government's partial settlement of arrears to the Club. Based on the latest debt sustainability analysis, Moldova's debt dynamics appear to be comfortably sustainable. In this context, the Secretariat has proposed a non-concessional rescheduling on Houston terms. Comparability of treatment is not expected to be an issue, since Moldova has already

restructured much of its non-Paris Club debt. Moldova is tentatively scheduled to come to the Club next month. The US has \$58.1 million in claims.

NIGERIA

¶14. (U) The Secretariat has prepared a letter to the authorities announcing that the final stage of the October 2005 Agreed Minute has entered into force. The letter will be sent once the first review of Nigeria's PSI has been approved by the executive board (anticipated for April 17). The date by which Nigeria must make its final payments to Paris Club creditors will be fixed at 20 business days after the date of approval of the PSI review.

SEYCHELLES

¶15. (SBU) The Secretariat asked if any creditors were negotiating bilaterally with the Seychelles. Belgium acknowledged that, following a meeting between the two countries' finance ministers, it had agreed to reschedule the Seychelles' ODA debt, which had fallen into arrears. The UK said it had spoken with the authorities, but there was no prospect for an agreement at this time. The UK added that it was important to continue to press the Seychelles to pursue a multilateral solution in the Paris Club. The Secretariat will send a letter to the authorities reminding

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them of the Club's principles and urging them to seek an IMF program as a first step toward a Paris Club treatment. (The US is not a creditor.)

METHODOLOGICAL DISCUSSION: SHORT-TERM DEBT

¶16. (U) There was broad agreement that short-term debt should be considered senior to other categories of debt and therefore should be excluded from most Paris Club treatments. There were differing views, however, as to whether creditors had the right to reschedule short-term claims on a bilateral basis. Germany and Japan stressed the need to maintain flexibility in order to preserve the financing of essential imports. The USDEL, joined by Denmark, Italy, Norway, Spain, Sweden, and Russia, argued that the Club as a whole, not individual creditors, should judge the consistency of such bilateral reschedulings with the principle of creditor solidarity. In the end, creditors agreed to modify the Secretariat's working paper to require prior notification of bilateral short-term debt reschedulings.

STAPLETON#